

Virginia Compared to Other States: Market Structure, Taxation and Outlet Density

Government Reform Subcommittee

Richmond, Virginia

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Overview

- Control State Market Structure
- Taxation
- Per capita volumes
- Outlet Density
- Market Dynamics

Review of Control State Practices

- No two states are alike, no consistency in policy
- Review:
 - What products are monopolized
 - At what level (wholesale, retail)
 - Use of private outlets, contract stores, agency stores
 - Are spirits sold at same locations as beer and wine?
 - Is beverage alcohol the only product sold at outlets?
- Best attempt to characterize, many nuances

Market Structure

- State monopoly functions, wholesale and/or retail
 - Distilled spirits – 18
 - Wine – 4 (Miss., NH, PA, UT)
 - Beer – 1 (UT)
- 17 States act as exclusive wholesaler of spirits
 - Maine contracted out wholesaling to private operator
 - Washington state ballot initiative

Market Structure

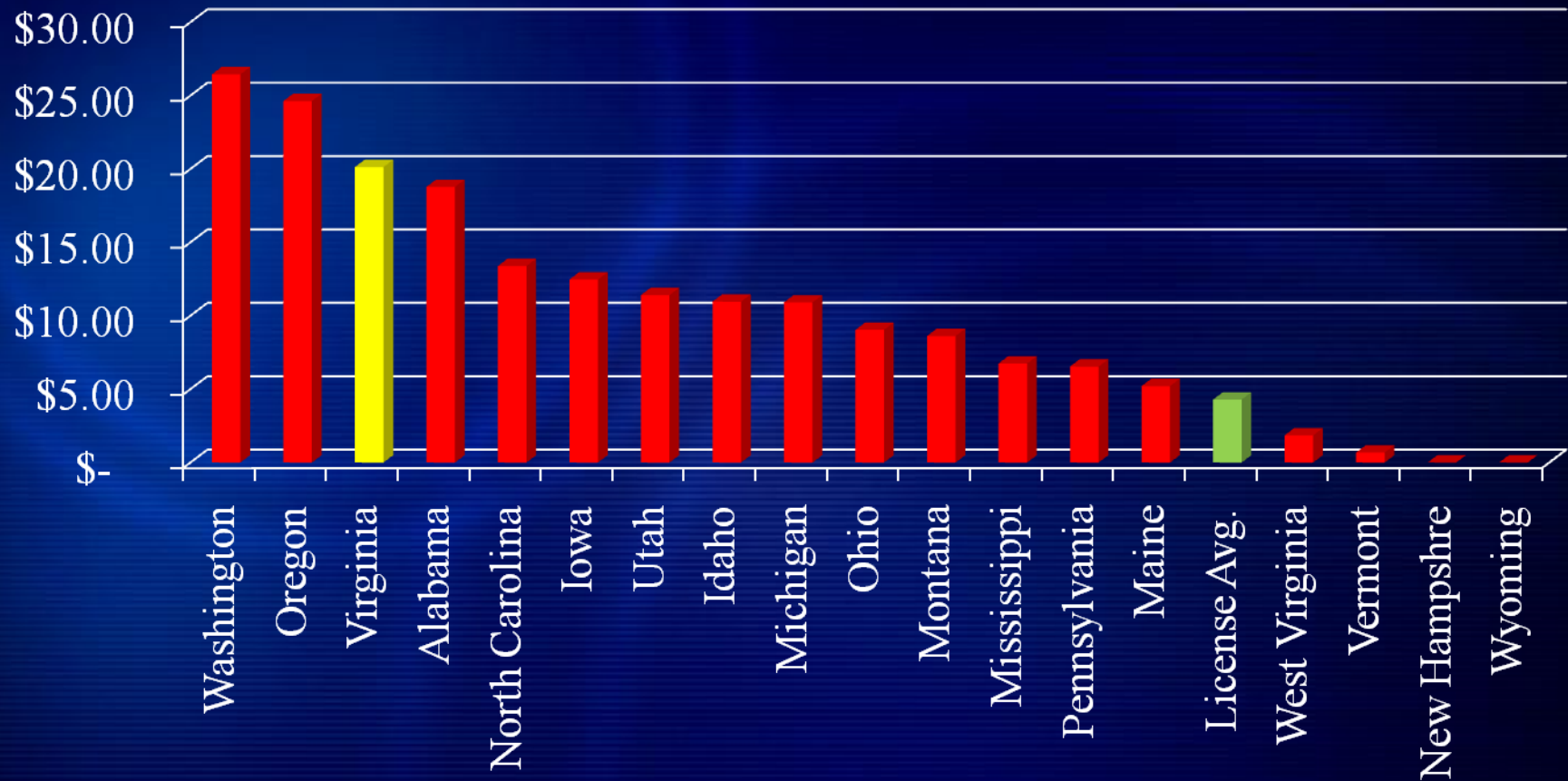
- Retail Outlets
 - State stores – 8 (AL, ID, NH, NC, PA, UT, VA, WA)
 - Exclusively use state stores (NC, PA, VA)
 - Agency/Contract stores – 9 (ID, ME, MT, NH, OH, OR, UT, VT, WA)
 - Exclusively use agency/contract (ME, MT, OH, OR, VT)
 - Private Outlets – 6 (AL, IA, MI, MS, WV, WY)
- Wholesale only - 5 (IA, MI, MS, WV, WY)
 - No state stores, agency or contract

Market Structure

- Pricing – 14 states set retail prices.
 - Pricing determined by array of mark-ups, taxes, fees
 - Only IA, MS, WV, WY do not set minimum retail
 - All License States influence retail pricing by excise tax
- Beer and/or wine sold with spirits – except NC
 - Does not seem to be problem for Control States
 - Retailers find synergies in selling all three
- Spirits in grocery/drug stores/ convenience stores
 - 12 states total, in 7 of those states regular practice

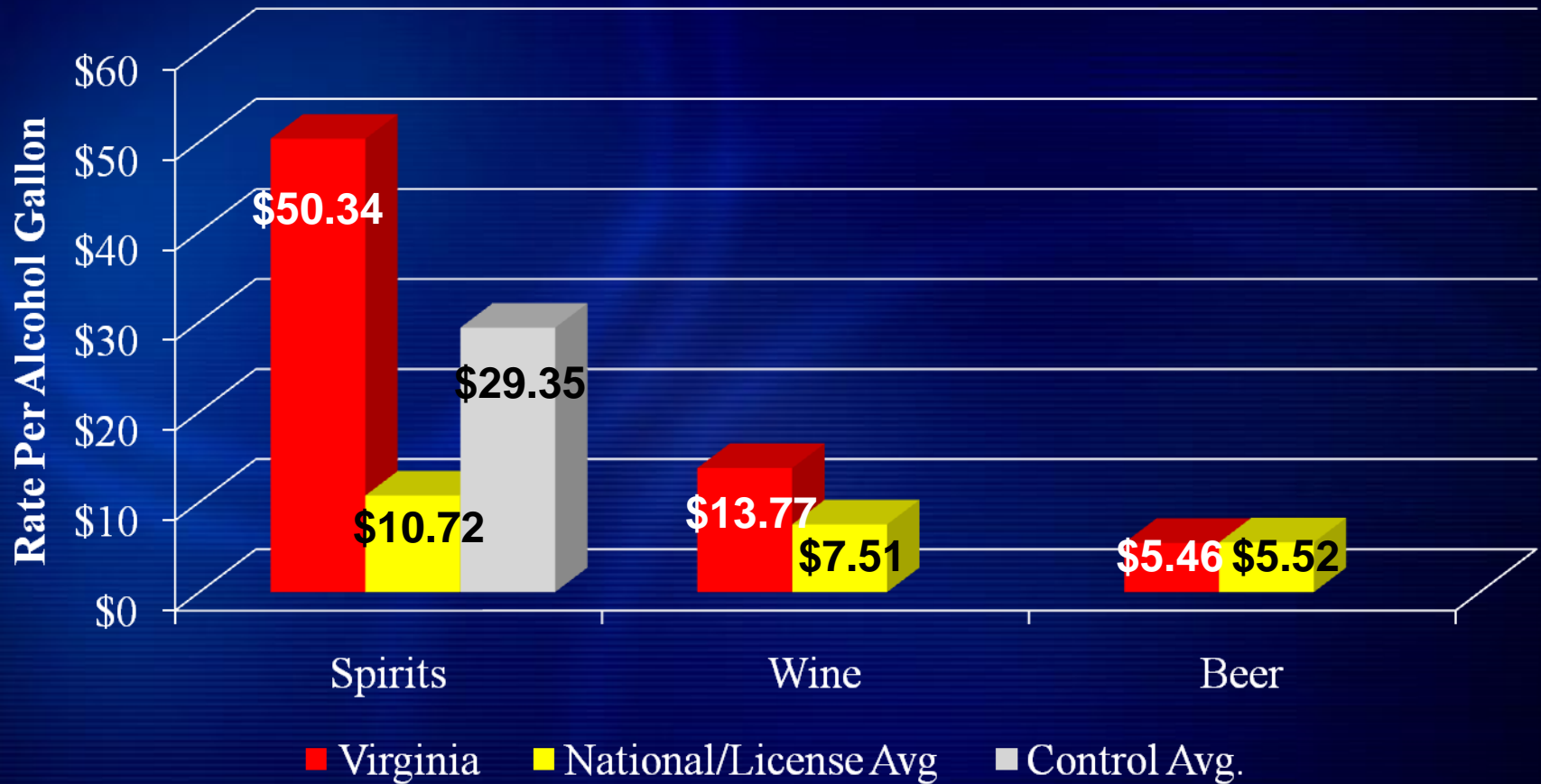
Control State Implied Excise Tax Rates

Rate Per Gallon



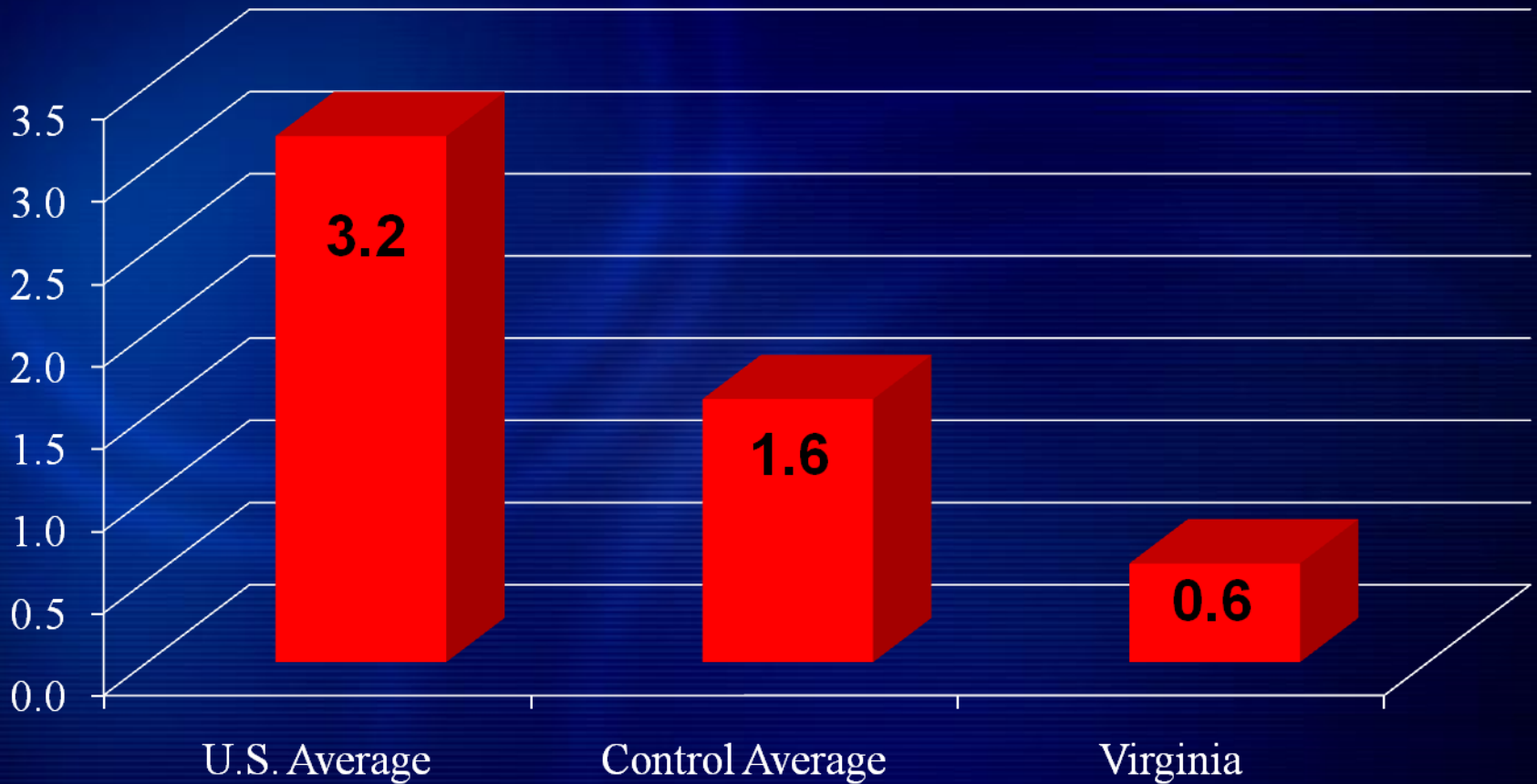
Excise Tax Rate Comparison

Per Alcohol Gallon



Off-Premise Spirits Outlets

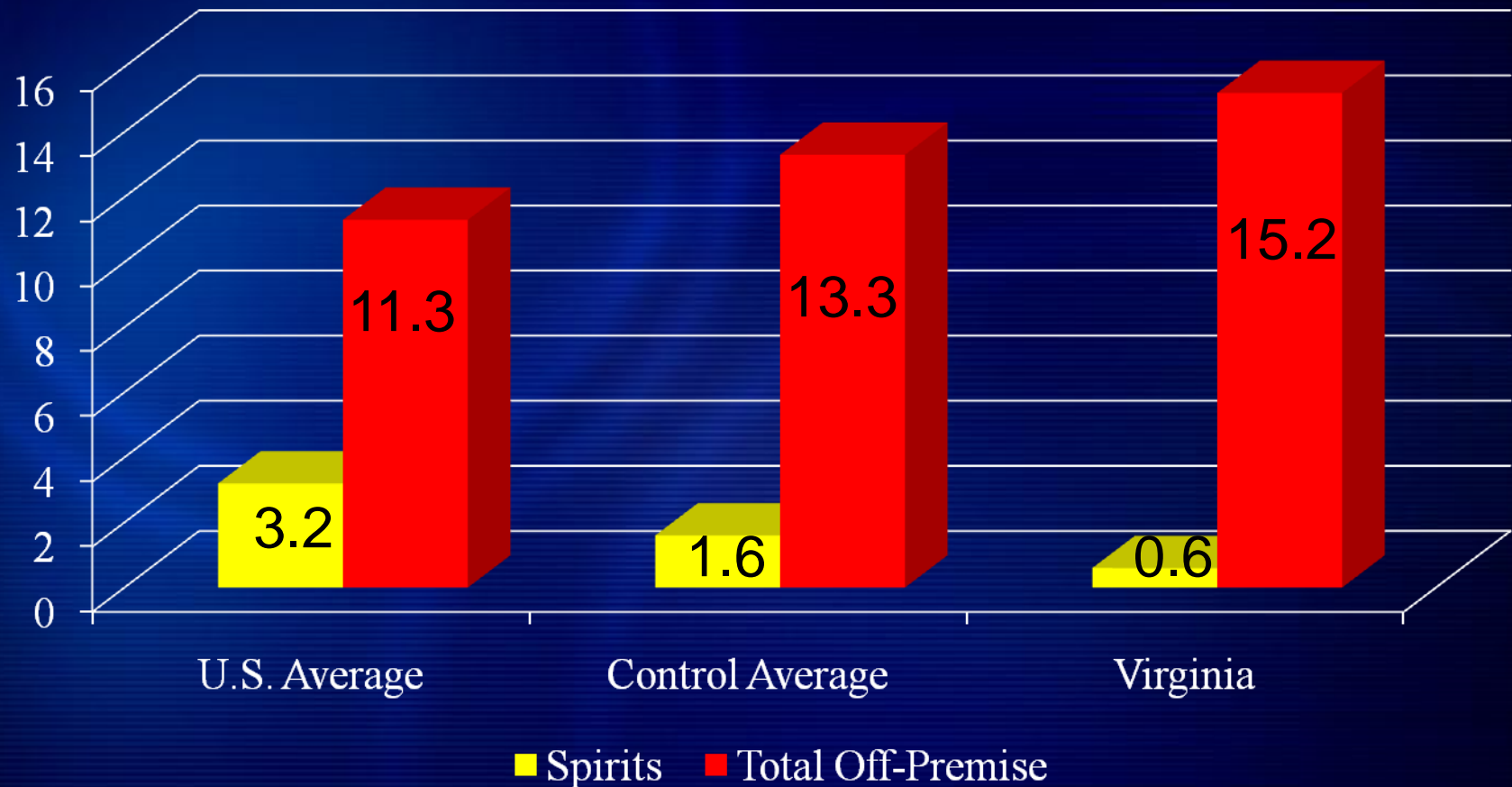
Outlets Per 10k Adults



Sources: NABCA Survey Book,
Adams Liquor Handbook

Total Off-Premise Outlets Compared to Spirits Off-Premise

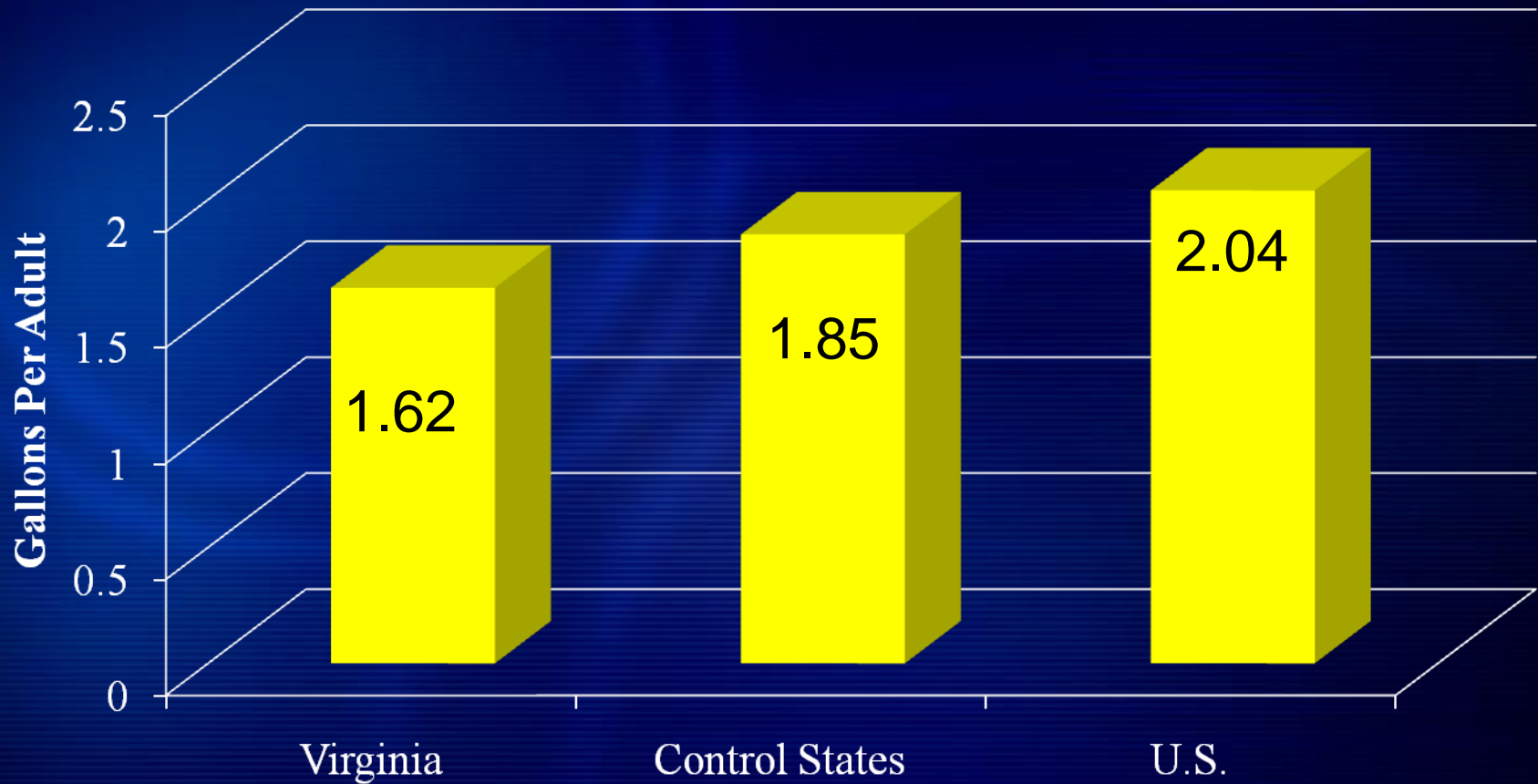
Outlets Per 10k Adults



Spirits Per Capita Sales Comparison

Does not account for lost cross border sales

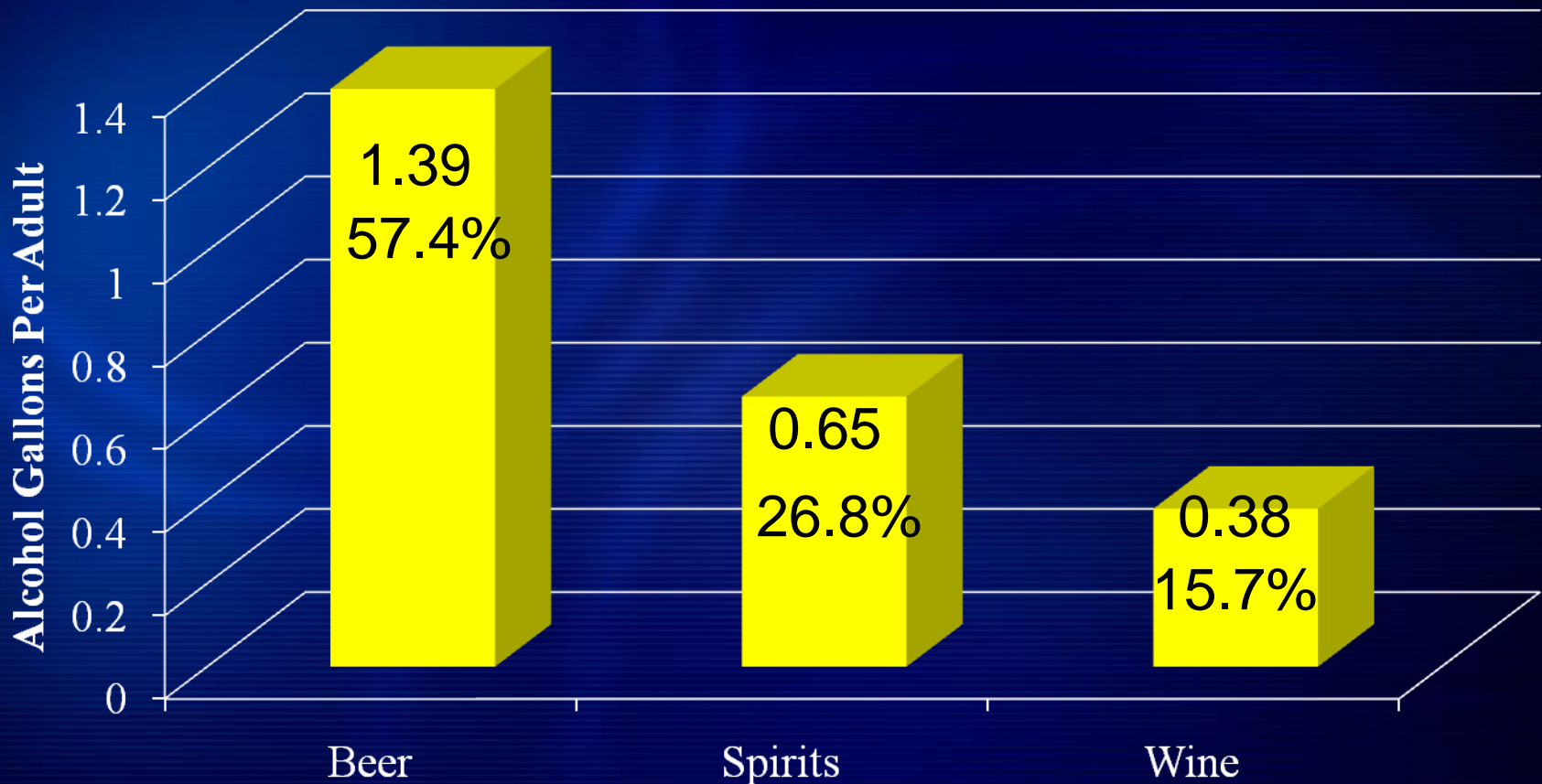
Gallons Per Adult



Sources of Alcohol Sold in Virginia

Does not account for cross border sales

Alcohol Gallons Per Adult



Market Dynamics

- Virginia sales volumes much lower than U.S. avg.
 - Per capita sales volume in VA 1.62 vs. U.S. 2.04 gal.
 - 21% lower or 815k cases.
- Results are surprising, given VA household income
- Household income primary consumption driver
 - True for spirits, wine or beer
- VA household income \$61k vs. U.S. \$52k
- NoVa Per capita 1.61, household income \$101k
- Estimated that VA loses at least 20% of volume
- For many DC liquor stores 50% of sales from VA

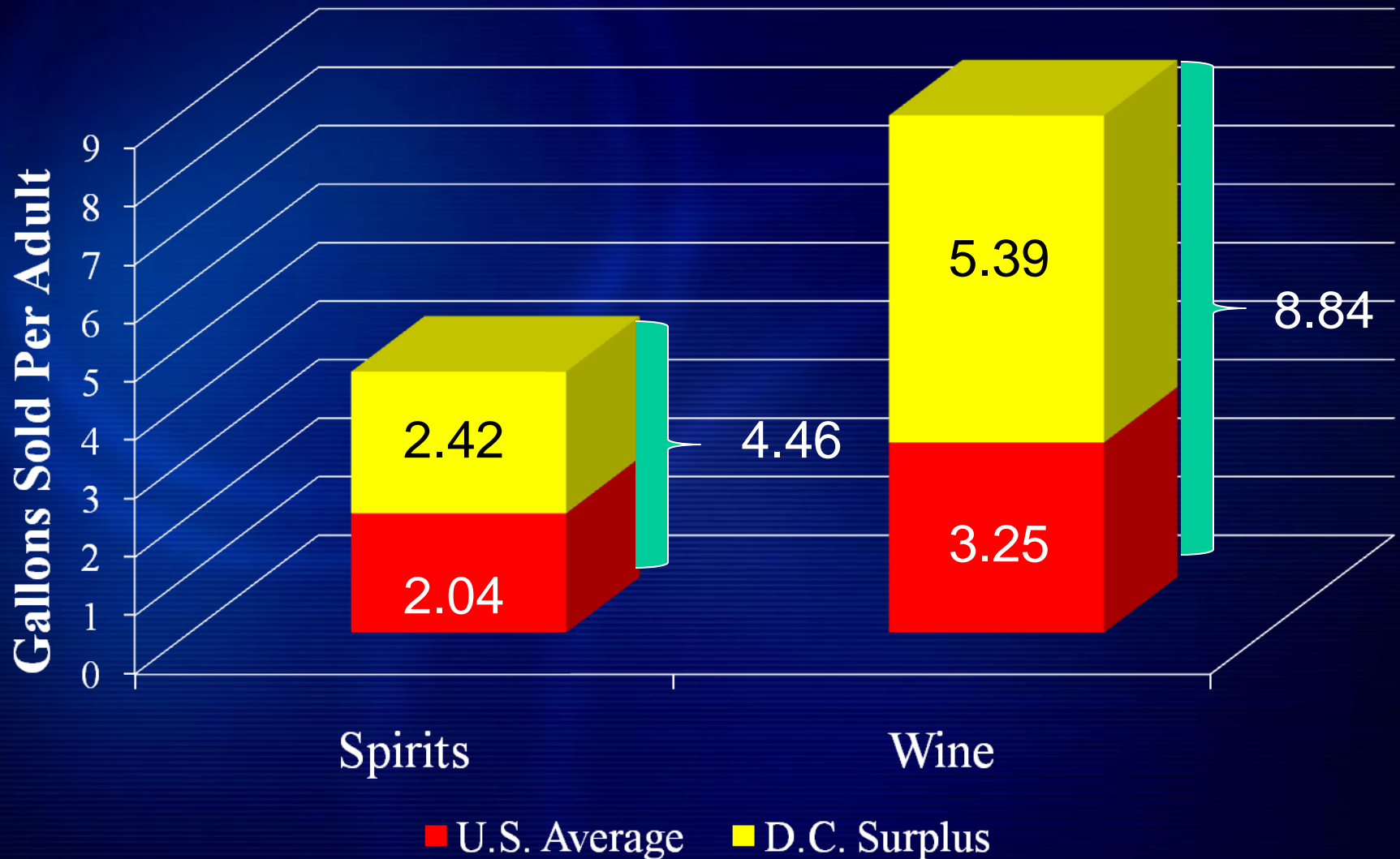
Market Dynamics

- Price is not the only factor
- Convenience is critically important
- Sunday sales experience instructive
- VA has lowest off premise outlet density in U.S.
 - 0.6 per 10k vs. U.S. average of 3.2 per 10k
- Increasing number of outlets will allow for repatriation of spirits volumes

Market Dynamics

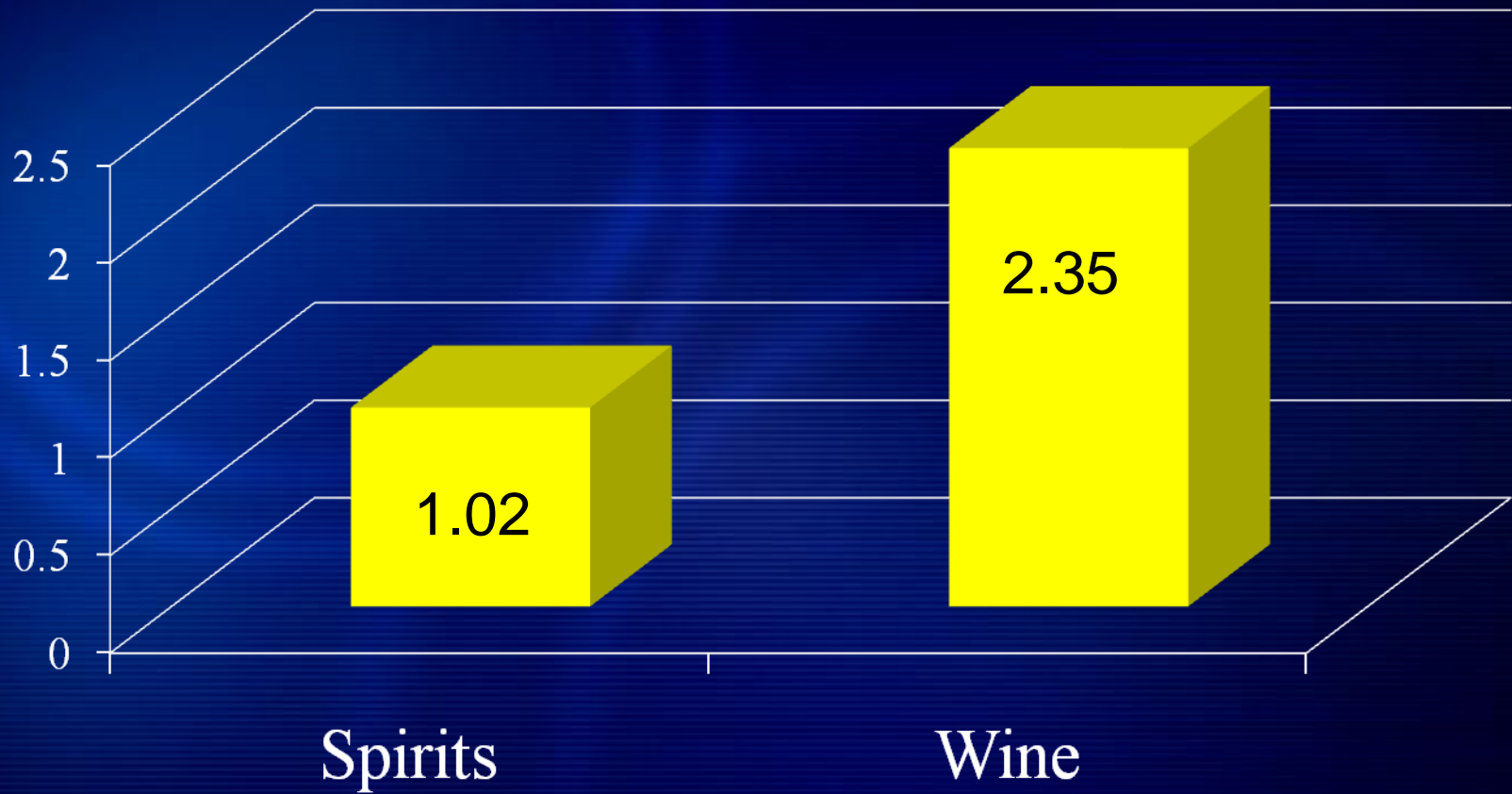
- When VA loses spirits sales, wine sales also lost
- 70% of spirits drinkers also drink wine
- 50% of consumers make dual purchases
- DC liquor stores sell up to 3 cases of wine for every case of spirits

D.C. Per Capita Sales Vs. U.S Avg.



D.C. Surplus Spirits and Wine

Cases Per Adult



Market Dynamics

- 16% of VA spirits volumes sold on-premise
- National average is 24%
- Given household income, disparity surprising
- Major differences
 - Direct wholesaler delivery allowed in all states
 - On-premise has to purchase at retail prices in VA